



# Gladstone Regional Council

## Council Policy

<b>Title</b>	<b>ETHICS INTEGRITY AND AUDIT</b>
<b>Policy Number</b>	<b>P-2020-20</b>
<b>Business Unit/s</b>	<b>FINANCE GOVERNANCE AND RISK</b>
<b>Date of Adoption</b>	<b>15 DECEMBER 2020</b>
<b>Resolution Number</b>	<b>GM/20/4409</b>
<b>Review Date</b>	<b>15 DECEMBER 2021</b>
<b>Date Repealed</b>	

### 1.0 PURPOSE:

This Policy establishes the authority and responsibility conferred by Council to the Ethics, Integrity and Audit function in the fulfilment of internal audit requirements under the *Local Government Act 2009* and other legislation. This policy supports the Audit Risk and Improvement Committee Policy.

### 2.0 SCOPE:

This policy applies to the Audit Risk and Improvement Committee, Councillors and our People. As a Government-Owned Corporation, the Gladstone Airport Corporation is not subject to this Policy except to the extent that the Audit Risk and Improvement Committee must provide oversight and Council must adopt Gladstone Regional Council's annual financial statements which incorporates the financial statements of the Gladstone Airport Corporation.

### 3.0 RELATED LEGISLATION:

- *Local Government Act 2009*
- *Local Government Regulation 2012*
- *Public Interest Disclosure Act 2013*
- *Crime and Corruption Act 2001*
- *Crime and Corruption Regulation 2015*
- *Integrity Act 2009*
- *Public Sector Ethics Act 1994*

### 4.0 RELATED DOCUMENTS:

- Gladstone Regional Council Audit Risk and Improvement Committee Policy.

## 5.0 DEFINITIONS:

To assist in interpretation of this policy the following definitions apply:

**Assurance** means the objective assessment of evidence to provide an independent opinion or conclusions regarding a process, system or other subject matter.

**Audit Function** includes the activities of internal and external audit and other associated processes and organisational change activities resulting from audits and/or reviews of business practices and business improvement.

**the Business** means Gladstone Regional Council in its operational capacity.

**Consulting Service** means services that are advisory in nature and are generally performed at the specific request of the business, including Council, management and/or the Audit Risk and Improvement Committee. The nature and scope of the consulting service engagement is subject to the approval of the Chief Executive Officer or delegate.

**Executive Team** means the Chief Executive Officer and General Managers of Gladstone Regional Council.

**External Audit** means the audit function of Auditors of, or appointed by, the Queensland Audit Office to carry out the annual audit of Council's financial statements in accordance with Section 212 of the *Local Government Regulation 2012*.

**Internal Audit** is an independent, objective assurance activity conducted by our People or a consulting service appointed by the CEO, designed to add value and improve the business's operations. It helps the business accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

**Leader** means the Executive Team, Managers, Team Leaders and other supervisory positions that report to a General Manager.

**Our People** means the employees of Gladstone Regional Council.

## 6.0 POLICY STATEMENT:

### 6.1 APPROACH

The business will adopt a risk-based approach to allocating resources and planning ethics, integrity and internal audit projects.

Based on a risk assessment and in consultation with management, the general direction of the business's Ethics, Integrity and Audit activities over the medium term is to be documented in a Three-Year Internal Audit Plan. This plan shall be reviewed and approved by the Chief Executive Officer and presented to the Audit Risk and Improvement Committee. The Plan will also be reviewed annually to take account of any change in circumstances.

The Annual Internal Audit Plan projects may include financial, compliance, performance, due diligence, information systems, program evaluation, operational audits and other approaches as deemed appropriate, given the resources and priorities established through the risk assessment process and other identified considerations.

## **6.2 INDEPENDENCE**

Independence, objectivity, and integrity are the foundation of an effective internal audit and assurance system and for that purpose:

- a. The Ethics Integrity and Audit (EIA) Team will report to the Ethics Integrity and Audit Specialist who reports:
  - administratively to the General Manager Finance Governance and Risk; and
  - functionally to Chief Executive Officer and the Audit Risk and Improvement Committee through the Chair.
- b. The Ethics Integrity and Audit team should not develop and implement procedures or internal controls, prepare records, outside of those required for the operation of EIA team, or engage in any other activities which the team would normally review or appraise, and which could reasonably be construed to compromise independence. The Ethics Integrity and Audit Team must carry out their activities in an impartial and unbiased frame of mind, avoid conflicts of interest and be independent in fact and appearance.

## **6.3 AUTHORITY**

- 6.3.1. Ethics, Integrity and Audit is authorised to review all areas of the business and to have full, free, and unrestricted access to all the business's activities, records (both manual and electronic), property, and people. Business activities include entities over which Council has direct management, sponsorship or financial control.
- 6.3.2. The business's people shall co-operate fully in making available any material or information reasonably requested by Ethics, Integrity and Audit.
- 6.3.3. Ethics, Integrity and Audit activities will remain free of influence by any organisational elements. This includes such matters as scope of activities/projects, the frequency and timing of examinations and the content of audit reports.
- 6.3.4. For approved areas of audit, evaluation and review, where Ethics, Integrity and Audit do not possess all the necessary experience/skills, additional internal or external consulting service resources may be engaged subject to approval by the Chief Executive Officer.

## **6.4 RESPONSIBILITY FOR DETECTING AND REPORTING IRREGULARITIES**

- 6.4.1. Ethics Integrity and Audit is not legally or professionally responsible for preventing irregularities (which include fraud, other illegal acts and errors). However, in order to facilitate the fraud and corruption prevention function, the Ethics Integrity and Audit Team will be informed of any special investigation, fraud, theft or other suspected cases of misappropriation.

- 6.4.2. The responsibility for prevention of irregularities rests with the business and management through the implementation and continued operation of an adequate internal control system. Ethics Integrity and Audit representatives are responsible for examining and evaluating the adequacy and the effectiveness of actions taken by management to fulfil this obligation.
- 6.4.3. Ethics Integrity and Audit has a responsibility to report irregularities to the Chief Executive Officer and the Audit Risk and Improvement Committee.
- 6.4.4. The Chief Executive Officer or delegate is responsible for reporting any irregularities according to the provisions of the *Local Government Act 2009*, and the *Crime and Corruption Act 2001* and any other statutory regulations that may come into force from time to time. In this regard the Manager Governance will fulfil the liaison officer's role to the Crime and Corruption Commission.

## **6.5 REPORTING AND RESPONSIBILITY FOR CORRECTIVE ACTION**

- 6.5.1. The General Manager of the business unit under audit retains ultimate responsibility for audit actions, but the position nominated in audit actions is responsible for carrying out the agreed corrective action within the agreed timeframe. Timeframes for audit actions will generally be based on the Classification of Internal Audit Findings Table attached as Appendix 1 to this policy.
- 6.5.2. Recommendations are considered outstanding until they are implemented and/or hold a status of 'complete'. Any recommendations that have not been actioned within the agreed timeframe will be reported to and followed through by the Executive Team.
- 6.5.3. A status report of actions will be presented to the Audit Risk and Improvement Committee at each meeting.

## **6.6 INTERNAL AUDIT QUALITY ASSURANCE**

### **6.6.1 Audit Work**

In order to ensure that the quality of audit work is consistently maintained at a high standard, Ethics Integrity and Audit will establish and maintain a quality assurance program. This program is to include:

- Developing a comprehensive work reporting arrangement.
- Maintaining a regular review of audit plans, reports and working papers.
- Maintaining effective communication links with the Audit Risk and Improvement Committee, Chief Executive Officer, management, external auditors and the Queensland Audit Office.
- Arranging and providing on-going training for the EIA Team as appropriate.
- Issuing necessary oral and written directions and maintain written policies and procedures to assist and direct the Ethics Integrity and Audit Team in the performance of duties.

### **6.6.2 External Quality Assessment**

Ethics Integrity and Audit will be subject to an external quality assessment on a regular basis, not exceeding an interval of five years.

## **6.7 RESPONSIBILITIES**

### **6.7.1 Council**

- Set the strategic direction for the ethics, integrity and audit program through the adoption of this Policy and other supporting Policies associated with risk management and corporate governance.
- Consider the advice of the Audit Risk and Improvement Committee and other advisory parties in ethics, integrity and audit decision making.

### **6.7.2 Chief Executive Officer**

- Authorise the annual and three-year internal audit plans
- Where required, action and report irregularities identified through ethics, integrity, audit and assurance activities (via delegation where appropriate).

### **6.7.3 Executive Team**

- Contribute to the development and review of the annual and three-year internal audit plans
- Oversee the completion of audit actions and ensure regular progress reports are provided through to completion
- Report to the Audit Risk and Improvement Committee as required.

### **6.7.4 Audit Risk and Improvement Committee**

- Provide oversight of Council's activities in accordance with Section 105 of the *Local Government Act 2009* and Council's Audit Risk and Improvement Committee Policy
- Provide advice and report annually to Council on audit risk and improvement activities
- Report irregularities and concerns related to audit, assurance, financial, risk, compliance and governance matters
- Consider and provide advice on the business's annual and three-year internal audit plan, annual financial statements and associated policies.

### **6.7.5 Ethics Integrity and Audit Team**

- Develop, review and implement the annual and three-year internal audit plans in consultation with all stakeholders
- Report to the Audit Risk and Improvement Committee and the Chief Executive Officer on audit, compliance, and assurance activities and any associated irregularities.

### **6.7.6 Our People**

- Provide assistance and information to the Ethics, Integrity and Audit Team in the delivery of the annual audit program as required
- Support the implementation and actioning of ethics, integrity and audit actions and activities as required
- Report any irregularities or concerns on ethics, integrity and audit related matters via Leaders or directly to the EIA Specialist where appropriate.

## **7.0 ATTACHMENTS:**

Appendix 1 - Classification of Internal Audit Findings Table

## **8.0 REVIEW TRIGGER:**

This policy will be reviewed when any of the following occur:

1. The related legislation or governing documents are amended or replaced; or
2. Other circumstances as determined by resolution of Council or by the CEO; or
3. Three years from date of adoption.

TABLE OF AMENDMENTS			
Document History	Date	Council Resolution No.	Notes (including the prior Policy No, precise of change/s, etc)
Originally Approved	5 October 2010	G/10/32	
Amendment 1	3 July 2012	G/12/1103	
Amendment 2	17 September 2013	G/13/1722	
Amendment 3	7 April 2015	G/15/2363	
Amendment 4	01 November 2016	G/16/0090	First considered by the Finance & Corporate Governance Committee 25/10/2016
Amendment 5	4 December 2018	G/18/3593	
Amendment 6	15 December 2020	GM/20/4409	Primary change is to reference renaming of Committee to Audit, Risk and Improvement Committee

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**LEISA DOWLING**  
**CHIEF EXECUTIVE OFFICER**

## APPENDIX 1 - CLASSIFICATION OF INTERNAL AUDIT FINDINGS TABLE

The following framework for internal audit ratings has been developed for prioritising internal audit findings according to their relative significance depending on their impact on the process. The individual internal audit findings contained in audit reports will be discussed and rated with Management.

Rating	Definition	Examples of business impact	Action(s) required
<b>Extreme</b>	Issue represents control weakness which could have a catastrophic adverse effect on the ability to achieve process objectives.	<ul style="list-style-type: none"> <li>• Failure of critical business operations for an extended period</li> <li>• Strategic objectives unable to be delivered</li> <li>• Unable to access business premises for an extended period</li> <li>• Entire community affected for a short period</li> <li>• Complete failure of critical service delivery</li> <li>• Widespread, long term loss of substantial critical asset(s)</li> <li>• Major regulatory breach resulting in major penalties/criminal charges against Council or individual/Councillors/Management; or loss of licence to deliver critical services</li> <li>• Adverse outcome from a third-party investigation (e.g. CCC/parliamentary enquiry/other regulatory authority) that may result in legal action against employees or class action</li> <li>• Detrimental long-term impact, permanent loss of habitat or value, damage irreversible</li> <li>• Prolonged adverse media attention. Staff and elected members forced to resign</li> <li>• One or more major industries (E.g. tourism, agriculture, construction, education, retail, fishing) within the Gladstone Region interrupted or significantly impacted</li> <li>• Fatality, permanent disability or long-term hospitalisation</li> <li>• Financial Impact of &gt;\$8,200,000; &gt;10% of Net General Rates</li> </ul>	<ul style="list-style-type: none"> <li>• Requires immediate action.</li> <li>• Actively managed by Chief Executive Officer.</li> <li>• Requires detailed plan of action to be put in place within 20 days with an expected resolution date and substantial improvement within one month.</li> </ul>
<b>High</b>	Issue represents a control weakness, which could have or is having major adverse effect on the ability to achieve process objectives.	<ul style="list-style-type: none"> <li>• Failure of a critical business operation for a limited period</li> <li>• Unable to access premises for a short period greater than several days</li> <li>• High proportion of the local community affected for a short period</li> <li>• Significant impact on operational objectives</li> <li>• Partial failure of several critical services</li> <li>• Widespread, short term to medium term loss of critical assets(s)</li> <li>• Deliberate breach of regulation or gross negligence – penalty /sanctions imposed against Council</li> <li>• Formal investigation from a third party (e.g. CCC/parliamentary enquiry/other regulatory authority)</li> <li>• Partial loss of habitat or value</li> <li>• Remediation/recovery possible - achieved over long term (1 year +)</li> <li>• Significant State and National media coverage with some effect on Councils reputation</li> <li>• Significant, substantiated complaints from the management of a broader group of stakeholders and community petitions</li> <li>• Serious physical or psychological injuries where short-term hospitalisation is required.</li> <li>• Moderate physical or psychological injuries incurred by multiple people requiring medical treatment</li> <li>• Financial Impact of \$820,000 to &lt;\$8,200,000; 2.5% to 10% of Net General Rates</li> </ul>	<ul style="list-style-type: none"> <li>• Requires immediate/prompt management action.</li> <li>• Requires executive management attention.</li> <li>• Requires a detailed plan of action to be put in place within 60 days with an expected resolution date and a substantial improvement within 3-6 months.</li> </ul>

Rating	Definition	Examples of business impact	Action(s) required
<b>Medium</b>	Issue represents a control weakness, which could have or is having significant adverse effect on the ability to achieve process objectives.	<ul style="list-style-type: none"> <li>• Business interruption to whole of business operations for a limited time</li> <li>• Access to premises restricted for several days</li> <li>• Extended impact on operational objectives</li> <li>• Isolated failure of several critical services within a contained area impacting limited population</li> <li>• Short to medium term loss of critical asset(s)</li> <li>• Regulatory breach – penalty or sanction incurred by Council</li> <li>• Civil claim filed against Council</li> <li>• Impact to habitat or value is measurable/confirmed</li> <li>• Remediation/recovery likely - achieved over medium term (1 month - 1 year)</li> <li>• Negative Regional and State media coverage with minimal consequence</li> <li>• Businesses or community groups within the Gladstone Region are put at risk or impacted</li> <li>• Substantiated complaints from key stakeholders and community groups</li> <li>• Moderate physical or psychological injuries where medical treatment is required</li> <li>• Financial Impact of \$500,000 to &lt;\$820,000; 1% to 2.5% of Net General Rates</li> </ul>	<ul style="list-style-type: none"> <li>• Requires short-term management action.</li> <li>• Requires general management attention.</li> <li>• Requires a detailed plan of action to be put in place within 90 days with an expected resolution date and a substantial improvement within 6-9 months.</li> </ul>
<b>Low</b>	Issue represents a minor control weakness, with minimal but reportable impact on the ability to achieve process objectives.	<ul style="list-style-type: none"> <li>• Interruption to one business operation or the limited short-term impact on business objectives</li> <li>• Limited access to business premises for one day</li> <li>• Limited interruption to critical service delivery to a contained proportion of the population</li> <li>• Moderate adjustment to operational routine</li> <li>• Minor regulatory breach / warning letter received</li> <li>• Dispute resolved through external mediation or legal services</li> <li>• Impact to habitat or value is observed/expected</li> <li>• Remediation/recovery certain - achieved over short term (1 week – 1 month)</li> <li>• Council is referenced in adverse, limited, media coverage</li> <li>• Inconvenience to a group of businesses or community groups within the Gladstone Region</li> <li>• Substantiated complaints from the community</li> <li>• Minor physical or psychological injuries resulting in first aid treatment only</li> <li>• Financial Impact of \$205,000 to &lt;\$500,000; 0.25% to 1% of Net General Rates</li> </ul>	<ul style="list-style-type: none"> <li>• Requires management action within a reasonable time period.</li> <li>• Requires process manager attention.</li> <li>• Timeframe for action is subject to competing priorities and cost/benefit analysis, eg. 9-12 months.</li> </ul>
<b>Improvement Opportunity</b>	Matter raised when current processes meet process objectives, however business improvement recommended to increase efficiency and/or effectiveness of the process	<ul style="list-style-type: none"> <li>• Business process more efficient and effective</li> </ul>	<ul style="list-style-type: none"> <li>• Management action not required, management action suggested</li> <li>• Timeframe for action is subject to cost/benefit analysis eg. immediate action to within 12 months</li> </ul>